Applied Investment Management (AIM) Program

AIM Class of 2016 Equity Fund Reports
Fall 2015

Date: Friday, September 18, 2015 | ***Time:*** *3:00 – 4:30* p.m. | ***Location: AIM Research Room 488***

Student Presenter	Company Name	Ticker	Price	Page No.
Brendan O'Malley	ACE Ltd.	ACE	$101.30	2
Brendan Duffy	American Equity Investment Life Holding Company	AEL	$24.35	5
Benjamin Huss	Teladoc, Inc.	TDOC	$23.00	8
Patrick Sanchez	Enbridge Inc.	ENB	$38.09	11
Mark Lakowske	MGP Ingredients	MGPI	$15.86	14

These student presentations are an important element of the applied learning experience in the AIM program. The students conduct fundamental equity research and present their recommendations in written and oral format – with the goal of adding their stock to the AIM Equity Fund. Your comments and advice add considerably to their educational experience and is greatly appreciated. Each student will spend about 5-7 minutes presenting their formal recommendation, which is then followed by about 8-10 minutes of Q & A.

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ACE Ltd. (ACE)
September 18, 2015

Brendan O'Malley — International Financial Services

ACE Ltd. (NYSE: ACE) provides commercial property and casualty (P&C) insurance and reinsurance products and services through a variety of different segments, which include: Insurance-North American P&C (37.2% of Total Revenue), Insurance-North American Agriculture (8.4%), Insurance-Overseas General (37.9%), Global Reinsurance (6.8%), and Life (9.6%). The Insurance-North America P&C segment offers casualty insurance, marine, disaster, automobile, homeowners and several others. The Insurance-North American Agriculture provides comprehensive multiple peril crop and crop-hail insurance. The insurance-Overseas General segment offers traditional commercial fire coverage, along with marine, construction, political risk and more. Next, the Global Reinsurance segment markets reinsurance products while providing solutions to clients. The final segment, Life, offers protection and savings products for endowments, credit life, group medical, and other areas of life insurance. ACE operates in the Americas (68% of rev), Europe (16%), and the Asian Pacific (16%). ACE was founded in 1985 and is headquartered in Zurich, Switzerland.

Price ($):	101.30
Price Target ($):	121.43
52Wk H-L ($):	117.89 - 96
Market Cap (mil):	32,617
Float (mil):	321.1
Short Interest (%):	3.8
Avg. Daily Vol (mil):	1.8
Dividend ($):	2.68
Yield (%):	2.66

Beta:	0.90
WACC	7.17
M-Term Rev. Gr Rate Est:	
M-Term EPS Gr Rate Est:	8.0%
Financial Leverage	22.22
ROA (%):	3.00
ROE (%):	9.90
Tier 1 Capital Ratio (%)	#N/A
Credit Provisions/Loans (%	#N/A

FY: Dec	12/31/2013	12/31/2014	12/31/2015	12/31/2016
Revenue (Mil)	18,879.00	19,279.00	16,198.00	16,874.25
% Growth	4.16	2.12	-15.98	4.17
Net Interest Margin	19.91	14.8	15.22	16.00
Pretax Margin	22.45	18.09	20.81	20.03
EPS (Cal)	$10.92	$8.42	$9.26	$9.53
P/E (Cal)	9.5	13.6	10.9	10.6
BVPS	84.8	90.0	93.4	99.5
P/B	1.2	1.3	1.1	1.0

Recommendation

ACE has been able to maintain superiority amongst its competitors, in regards to their underwriting capabilities, while producing accelerated long term growth (7.8%). The insurance provider has increased its market share through strategic acquisitions, growth of its product line, and expansion into new markets. Since 2007, ACE has spent over $4B in acquisitions while maintaining excess capital and an above average combined ratio (FY'14 87.7%) due to its superior underwriting abilities. ACE has achieved growth through inorganic means, but this has enabled them up to enter new global markets. More specifically, the merger with Chubb will make ACE the leading writer of U.S. middle market commercial P&C. Through expanding more globally, ACE has formulated strong relationships with Fortune 1000 companies. Over the past seven years, ACE increased its total earned premium in the Asian Pacific and Latin America from 17% to 25% as a portion of total premiums. They also have plans to further growth and increase their global presence. Additionally, ACE's BVPS has grown at a CAGR of 10% for the prior ten years, which shows their ability to successfully handle and overcome significant events such as recession, hurricanes and other natural catastrophes. This success is partially attributable to their lower than average loss ratio and expense ratio which are 7.1% and 21.7% lower than AIG for FY'14. In conclusion, because of ACE's accelerated growth, expansion of its product line, and its increased market presence around the world, it is recommended that ACE be added to the AIM International Fund with a price target of $121.43, which offers an upside of 19.87%. The company also pays an annual dividend of $2.68, which is a yield of 2.66%.

Investment Thesis

- **Strategic Merger.** ACE Ltd. possesses a strong international presence in 54 countries, which will continue to support ACE's long-term growth. ACE currently has a 10-year revenue CAGR of 4.5%. As it stands, ACE has a net income 3 year CAGR of 21.6%; however, ACE recently merged with Chubb, which will further support their near and medium term growth of the ACE

Ltd. Chubb will help ACE expand their reach into the middle market and high net worth individuals, where ACE currently lacks market share. Upon completion of the merger, Chubb clientele will compose 62% of ACE's U.S. Professional and Surety line along with 69% of its U.S. high net worth individuals for the entire portfolio.

- **Strong Market Presence.** ACE has been gaining market share regions around the world. More specifically, ACE has a 5 year revenue CAGR of 13.39% ($1.6B to $3.0B) in Asia across 14 countries and they are expanding their product lines drastically. Consumer life, which was a mere 5% of the total product portfolio, is now in excess of 18%. ACE has targeted other countries in the region and other regions to expand their product lines into. Upon completion of the merger, ACE will be recognized as the fourth largest multiline insurance company in regards to scale, which will lead to a more efficient company and larger B/S.
- **Exceptional Performance.** ACE has a proven record for underwriting, more so than its North American and its global peers. ACE has a 10-year average combined ratio of 91.7%, whereas it's N. American and global peers have an average of 97.6% and 96.6%, respectively. Currently, ACE is recognized as the largest insurance company on the basis of P&C underwriting income. Which will continue to grow as they increase their performance annually.

Valuation

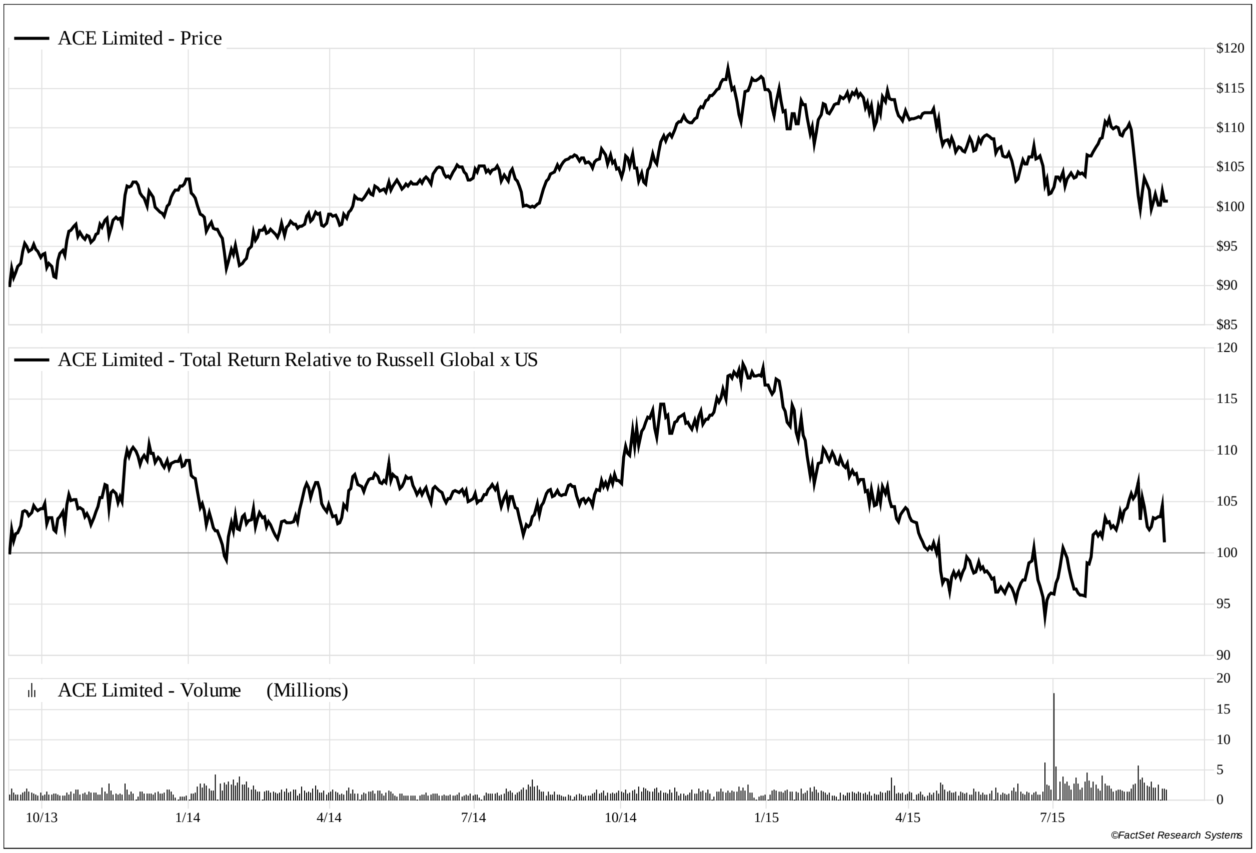
To find the intrinsic value of ACE, a comparable peer model using P/B and forward P/E was conducted to calculate the share price. On a forward year P/E basis, ACE's P/E amounted to 11.1x versus its peer average of 13.35x. The P/B for ACE was 1.28x with a peer average of 1.46x. Weighting the P/B average and forward year P/E evenly, the model yielded an intrinsic value of $121.43, which presents an upside of 19.87%. The company does pay a dividend of $2.68, a yield of 2.66%.

Risks

- **Natural and Man-made Disasters.** ACE, along with other insurance companies, assumes a sizeable risk. They are subject to disasters that would significantly hurt their balance sheet and a variety of their businesses. Though these are unpredictable and have a lower probability of occurring, it could pose substantial losses. However, ACE has poised themselves for these events through their excellent underwriting skills, risk models, and purchase of third-party reinsurance.
- **Higher Political Uncertainties.** With ACE growing at a higher rate, they are subject to changing political policies worldwide. ACE is particularly subject to this because of their desire to expand into developing markets where the markets face political and economic volatility. A regulatory change that requires ACE to raise it collateral could adversely affect them. However, ACE is growing strategically and maintains a high credit quality of A+.
- **Narrow Moat.** Competition is high among insurance and reinsurance markets, especially at an international level, other competitors are larger and have greater resources. ACE also competes with new entrants. A narrow moat and increased competition can reduce premiums and lower policy terms, therefore hurting profit margins for ACE. However, ACE's global reach enables it to cater to the largest global corporations and there are only a few competitors that can that can serve their clients.

Management

Evan G. Greenberg was has been with the company since 2001. Greenberg joined as Vice Chairman of ACE and assumed the role of CEO and President in 2004. In 2007 he was elected Chairman of the board. Prior to ACE, Greenberg was President and COO of American International Group (AIG), where he held a number of senior management positions. Next, Philip Bancroft is the sitting CFO and was appointed this role back in 2002. Prior Bancroft was a partner at PricewaterhouseCoopers LLP. The last management member to touch on is John Keogh. Keogh was appointed COO in 2011 and has been with the company in several different roles since 2006. Keogh has over 31 years of experience in the field.



Ownership

% of Shares Held by All Insider Owners:	0.83%
% of Shares Held by Institutional & Mutual Fund Owners:	150.67%

Source: FactSet

Top 5 Shareholders

Holder	Shares	% Out
Wellington Management Co. LLP	29,554,496 ▲	9.13
Capital Research & Management Co. (World Investors)	20,339,619 ▲	6.28
The Vanguard Group, Inc.	19,633,116 ▲	6.06
SSgA Funds Management, Inc.	15,075,968 ▼	4.66
BlackRock Fund Advisors	11,985,813 ▲	3.70

Peer Analysis

Name	Ticker	Market Cap (mil)	Sales (mil)	Net Margin	P/B	Dividend Yield
ACE Ltd	ACE	32,617	17,652	14.80%	1.28	2.70
American International Group, Inc	AIG	76,650	59,222	11.88%	0.72	1.90
Zurich Insurance Group AG	ZURN	41,070	51,085	5.35%	1.34	6.40
Travelers Companies, Inc.	TRV	30,648	24,133	0.13%	1.37	2.50
Cigna Corp	CI	35,985	38,118	6.01%	2.48	0.00
Anthem, Inc.	ANTM	38,087	78,230	3.46%	1.39	1.70
Peer Averages		44488.00	50157.57	0.05	1.46	2.5

American Equity Investment Life Holding Company
August 28, 2015

Brendan Duffy — Financial Services

American Equity Life Holding Company develops and sells index and fixed rate annuity products as a single premium immediate annuity in all 50 states and the District of Columbic. Fixed index annuities permit policy holders to be compensated for the performance of a particular index without risking loss of their principle. Its product line includes fixed annuity, life insurance, and health insurance. American Equity operates through its wholly owned life insurance subsidiaries, American Equity Investment Life, American Equity Life Insurance of New York, and Eagle Life Insurance Company. Their target market is people in the age range of 45-75 seeking to accumulate tax deferred savings or generate income for a lifetime. AEL was founded in 1995 in Des Moines, Iowa in 1995 by David J Noble and was brought public in 2003.

Price ($):	23.81	Beta:	1.03	FY: Dec	12/31/2013	12/31/2014	12/31/2015	12/31/2016
Price Target ($):	29.72	WACC	7.83	Revenue (Mil)	1,574.62	1,681.72	2,133.37	2,773.38
52Wk H-L ($):	30.02-21.3	M-Term Rev. Gr Rate Est:		% Growth	13.44	6.80	30.00	30.00
Market Cap (mil):	1,837	M-Term EPS Gr Rate Est:	7.0%	Net Interest Margin	#N/A	#N/A	#N/A	#N/A
Float (mil):	74.3	Financial Leverage	35.04	Pretax Margin	389.33	196.06	290.740	461.02
Short Interest (%):	12.5	ROA (%):	0.43	EPS (Cal)	$3.38	$1.58	$2.49	$2.65
Avg. Daily Vol (mil):	0.5	ROE (%):	9.83	P/E (Cal)	7.8	18.5	9.6	9.0
Dividend ($):	0.20	Tier 1 Capital Ratio (%)	#N/A	BVPS	19.6	28.1	20.6	23.5
Yield (%):	0.8	Credit Provisions/Loans (%	#N/A	P/B	1.3	1.0	1.2	1.0

Recommendation

AEL is currently trading at a discount and has a fundamentally sound business model poised for growth in the near term with baby boomers seeking attractive rates with an interest rate hike coming in the next few weeks or months. AEL has been a top three fixed index annuity producer by annual sales 14 out of the last 15 years. As of June 30, 2015 95% of the $31.8B worth of deposits was fixed index annuities. AEL has exhibited strong operational performance over the past decade with a track record of consistent 16% and 17% CAGR in operating income and assets under management, respectively. They have also produced an average of 13.4% ROE compared to a peer average of 9.3%. AEL was able to ride out the low interest rate market while maintaining spreads ranging from 2.59% to 3.23% as opposed to peer average of 2.25%. In Q2 they reached a record high spread of 2.84% up from 2.77% in Q1. Investment spread is the difference between yield earned and the cost of liabilities. Indexed annuities have been in favor over the last 6 years growing at an average rate of 12.6% for AEL. Sales growth was strong at record high $1.8B of annuities in Q2 up 73% from a year ago. This resulted in a market share of 14% up from 8% last quarter. Along with solid revenue numbers, AEL is committed to improving its distribution network of over 36 national marketing organizations and 31,000 independent licensed agents. AEL also maintains a conservative investment portfolio with predominately fixed maturity and with high credit quality consisting of 96% investment grade. AEL has a dividend yield of .8%.

Investment Thesis

- **Favorable Demographics.** There is approximately 76 million baby boomers retiring in the next decade seeking income and retirement money. With the age expectancy at all-time highs baby boomers and policy makers are stressing the need for greater access to annuities. According to USA today buyers are typically interested in annuities in their mid-50s or 60s and nearly all baby boomers are in that age range now. The opportunities for AEL to sell annuities could last for decades.

- **Higher Interest Rates Will Increase Demand** The majority of AEL's income is derived from investment spread and premiums earned on annuities. With the upcoming rate hike annuities will offer greater returns because they utilize investment grade bonds and will offer more attractive interest rates. Higher interest rates earned offers a good entry point for new investors. The Fed is likely to raise rates in the near term and again within a year. This could lead to consistently higher rates increasing demand for the baby boomers retiring in the next decade.

Valuation

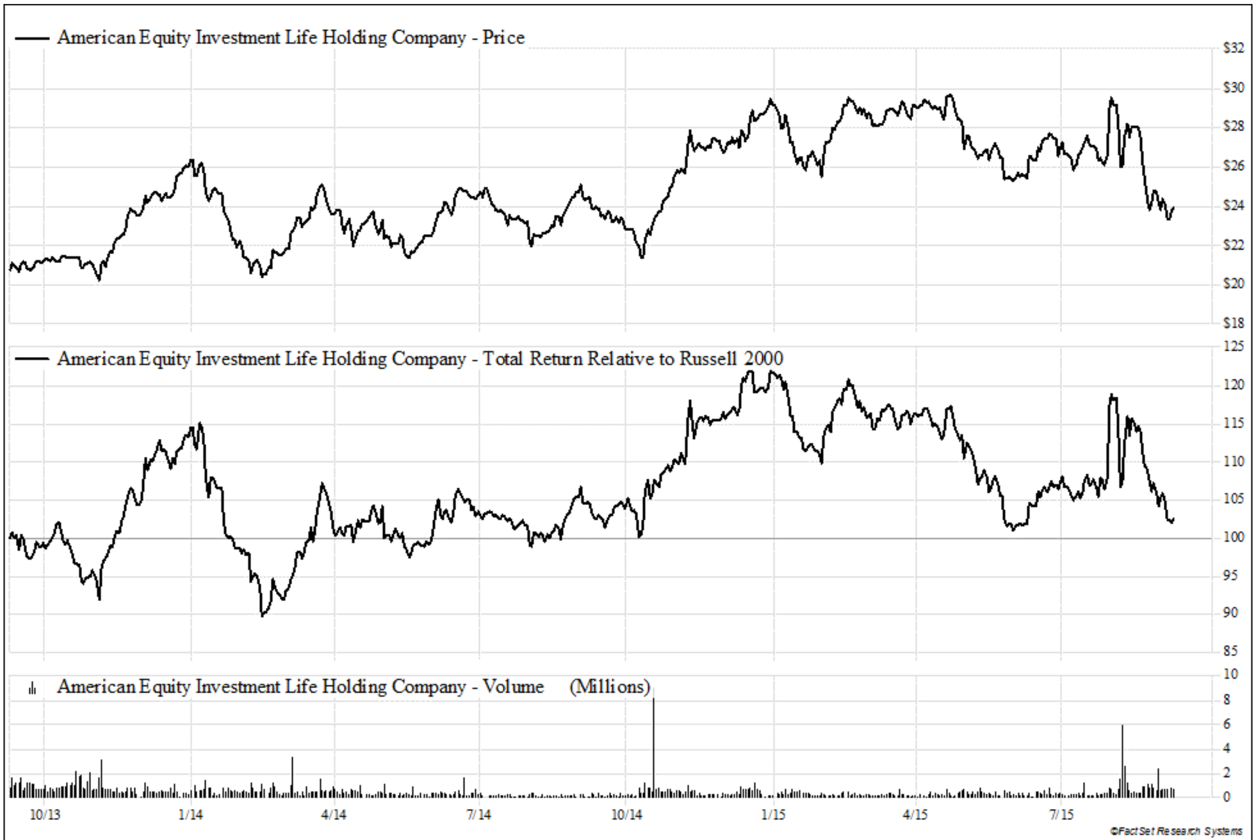
To find the intrinsic value of AEL a price to earnings multiple model was used, as well as a price to book multiple model. A current P/B multiple of 1.04X was weighted at 70% against .92X peer average at 30%. The P/B yielded an intrinsic value of $28.24. The P/E model used a historical P/E of 10.54 weighted at 50% versus a peer average P/E at 50% and an intrinsic value of $31.19. Weighting these valuations 50/50, the final estimated intrinsic value of AEL is $29.72, which provides an upside of 25%.

Risks

- **Interest Rate and Credit Spread Risk.** Increases and decreases in interest rates can substantially affect the profitability of AEL's products to return predictable returns. A rise in interest rates can decrease the unrealized gain position in the investment portfolio. If interest rates rise dramatically AEL may be exposed to disintermediation risk or the risk that policy holders may surrender part of their contracts causing AEL to sell assets in a loss position.
- **Liquidity Risk.** AEL holds private placement securities along with commercial mortgage loans, which are less liquid and more difficult to sell. If investors request a large amount of liquidity in a short amount of time AEL may have difficulty selling these assets at attractive prices and in a timely manner.
- **Persistent Low Interest Rates.** If the fed decides not to raise rates in the near term, AEL could be facing an environment that negatively affects their operations and financial condition. As interest rates remain lower fixed indexed annuities may become less in demand as clients look for other financial instruments with higher yields to fund retirement.

Management

David J. Noble is the Founder and Chairman of the Board for American Equity. He served as CEO and President of the company from its inception in 1995 to 2009. Mr. Noble has a total of 50 years of experience in the insurance industry. Before founding American Equity, Mr. Noble was CEO of Statesman Group from 1982 to 1994. John M. Matovina is president and CEO, as well as vice chairman of the board. He was appointed CEO on June 27, 2012. Prior to being appointed CEO he was the company's CFO since 2003. Most of AEL's senior management team has been employed or associated with AEL since 1996 and prior to that with Statesman Group. Senior managers each have at least 20 years of insurance industry or professional experience.



Name	Ticker	Market Cap (mil)	Sales (mil)	Net Margin	P/B	Dividend Yield
American Equity Investment Lif	AEL	1,837	1,778	7.49%	1.04	0.69
Aviva plc	021623	19,315	33,304	4.86%	1.43	3.74
FBL Financial Group, Inc. Class	FFG	1,410	712	15.90%	1.15	2.41
Fidelity & Guaranty Life	FGL	1,502	1,199	16.00%	0.96	1.00
National Western Life Insurance	NWLI	783	735	13.60%	0.63	0.13
Peer Averages		5,753	8,988	13%	1.04	1.8

Ownership

% of Shares Held by All Insider Owners:	3.73%
% of Shares Held by Institutional & Mutual Fund Owners:	150.63%

Source: FactSet

Top 5 Shareholders

Holder	Shares	% Out
BlackRock Fund Advisors	6,241,402 ▲	8.09
Dimensional Fund Advisors LP	6,191,612 ▲	8.03
The Vanguard Group, Inc.	5,622,542 ▲	7.29
EARNEST Partners LLC	3,322,524 ▼	4.31
Goldman Sachs Asset Management LP	2,868,884 ▲	3.72

Source: FactSet

Teladoc, Inc. (TDOC)
September 18, 2015

Benjamin Huss AIM Micro-Cap Fund

Teladoc, Inc. (TDOC) is the nation's first and largest telehealth services company. Teladoc provides medical care for adults and children via mobile devices, tablets, and desktops. Teladoc provides approximately 11 million members with access to a network of over 1,100 U.S. based board-certified physicians and behavioral health professionals 24 hours a day, seven days a week, and 365 days a year. These physicians and behavioral health professionals treat a wide range of non-emergency medical issues. In 2014 the company completed nearly 300,000 telehealth consultations. Teladoc was founded in 2002 and went public June 30, 2015. Teladoc is headquartered in Dallas, TX.

Price ($):	23.07	Beta:	1.20	FY: Dec	12/31/2013	12/31/2014	12/31/2015	12/31/2016
Price Target ($):	36.50	WACC	10.6%	Members (mil)	6.16	8.06	12.50	19.12
52WK H-L ($):	35.42 - 20.08	M-Term Rev. Gr Rate Est:	58.0%	Member Growth %	45.8%	31.0%	55.0%	53.0%
Market Cap (mil):	886	M-Term EPS Gr Rate Est:	26.0%	Visits (000)	127.4	298.8	542.8	848.5
Float (mil):	17.0	Debt/Equity:	0.3	Revenue (Mil)	20	43.51	74.30	117.07
Short Interest (%):	19.9	Debt/EBITDA (ttm):	N/A	% Growth	97%	119%	71%	58%
Avg. Daily Vol (mil):	0.6	ROA (%):	-25%	Gross Margin	79%	77%	71%	74%
Dividend ($):	0.00	ROE (%):	-41%	EBITDA	-5.14	-12.79	-50.50	-28.00
Yield (%):	0.0	ROIC (%):	-22%	EPS (Cal)	$ (0.26)	$ (0.72)	$ (1.49)	(0.88)

Recommendation

Teladoc is a truly disruptive telehealth platform that can be scaled quickly to efficiently match member demand with physician capacity. Teladoc generates roughly 80% of its revenue from a per-member, per-month (PMPM) access fee which is a highly visible revenue stream, especially since sales retention is 100%. The other 20% comes from a visit fee patients pay per consultation. This fee is currently $40 and is expected increase to $45 by the end of 2016. Teladoc sells its services to insurers, employers, and healthcare providers giving it the ability to add large swaths of members at a time. Teladoc finished 2014 with 8 million members and is expected to increase membership by 55% in 2015 and around 50% in 2016 and 2017. The number of members who utilized the service and consulted with a physician was 3.71% in 2014, up from 2.07% in 2013 and is expected to reach nearly 4.5% in 2015. Teladoc's financial model yields a gross margin profile of around 77% with long term EBITDA margins expected to reach 20-25% long term. In 2015, Teladoc is expected to reach the trough of its EBTIDA loss (Guided to a $50-52M loss) before reaching positive EBITDA in 2017. Because of its gross margin profile, EBITDA will scale up quickly which is important because the primary valuation measure among aggressive growth investors will be the forward EV/EBTIDA multiple. Cash flows will ramp quickly in the coming years, thus it is recommended that Teladoc, Inc. be added the AIM Micro-Cap portfolio with a price target of $36.50, representing nearly 60% upside.

Investment Thesis

- **Significant addressable market that remains largely untapped.** According the CDC there are nearly 1.3 billion ambulatory care visits per year in the United States. Teladoc estimates that one third of these visits are treatable remotely through telehealth services. It is estimated that 415 million visits could be efficiently and safely delivered via telehealth. Therefore, it is estimated that the total addressable market (TAM) for telehealth services is around $17 billion. Estimates show the TAM increasing to $23 billion by 2020.
- **Industry leader with a diverse set of growth opportunities.** Teladoc has over 4000 clients including 160 of the Fortune 1000 and over 20 health plans making them the

industry leader. In 2014 TDOC did more remote visits than all its competitors combined. As of 2Q'15, Teladoc has 11.5 million lives on the platform with a runway to +50 million just by penetrating its existing customers. Currently, within its health plan customers, only 9% subscribe to Teladoc's services. Along with driving member growth, Teladoc has a large runway for increasing utilization rates which currently sit at about 3.8% annually (TTM). It is expected for utilization rates to increase to beyond 5% by 2020. Offering new service lines is another growth channel for Teladoc. TDOC has recently expanded into behavioral health (anxiety, smoking cessation, etc.) and has expressed interest into dermatology services, specialty advice, second opinions, and chronic conditions like diabetes. Additionally, there is upside potential from the acquisitions.

- **Underlying secular and regulatory trends.** Telehealth addresses two key issues with the U.S. healthcare system, lack of access to care and rising costs. It is estimated that by 2020 the U.S. will face a significant shortage of primary care physicians driving costs even higher. Telehealth is a great solution for non-emergency cases and will lower costs by taking pressure off health care facilities. Federal regulations, state licensing bodies, and industry payers have begun to support and promote telehealth. Employers too, are driving the demand for telehealth as it lowers their overall healthcare costs as well as their employees.

Valuation

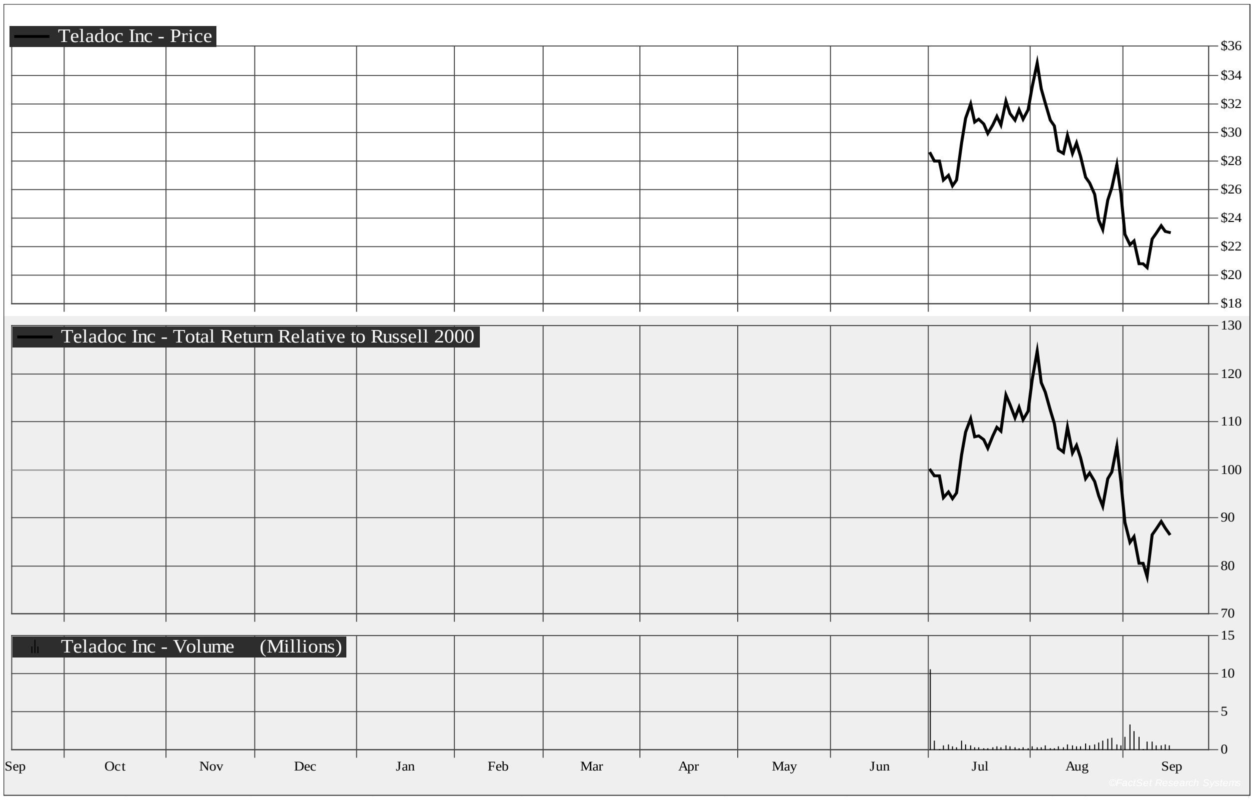
In order to reach a price target for TDOC, a DCF model and an EV-to-sales multiple were used. Using a terminal growth rate of 4% and a WACC of 10.6%, the DCF model yielded a price target of $38.00. While TDOC has no publicly traded comps, a comp analysis of other disruptive platforms was used to establish a comp valuation. FY2 (2016) EV-to-sales multiples ranged from 3.3x to 9.7x. TDOC's growth rate and gross margin is above comp averages, thus trading at a premium multiple. TDOC's price target is based off a 10x 2016 revenue of $120MM, yielding a price target of $35.00. Weighing both valuations equally, an overall price target of $36.50 was established, representing an upside of 58%.

Risks

- **Teladoc could have difficulty scaling up the physician network and maintaining quality levels.** While TDOC actively recruits physicians to support is growing member base, an inability to attract talent would limit how fast Teladoc can expand. There is a possibility that TDOC loses control of quality as more network physicians are added.
- **Texas Medical Board litigation could slow Teladoc's growth.** Since 2011, Teladoc has been involved in ongoing litigating with the TMB over its attempt to implement rules requiring an in-person visit before healthcare providers can connect via Telehealth. While the outcome of the litigation is most likely going to fall in Teladoc's favor, potential for similar litigation cannot be ruled out.

Management

Jason Gorevic, 43, has served as president and Chief Executive Officer since 2009. Mr. Gorevic is a key asset to Teladoc as his ability to foster a culture of strong service orientation has attracted large customers. Executive Vice President and CFO, Mark Hirschorn, was brought on in 2012 to help the company, with his 15 years of CFO experience, through its IPO. Chief Sales Officer, Mike King, has been able to double the sales base of the company every year of his employment.



Ownership

% of Shares Held by All Insider Owners:	55.84%
% of Shares Held by Institutional & Mutual Fund Owners:	4.91%

Source: FactSet

Top 5 Shareholders

Holder	Shares	% Out
Fidelity Contrafund	1,740,000	4.5%
BlackRock Health and Sciences Opportunities Fund	586,000	1.5%
BlackRock US Opportunities Portfolio	243,000	0.6%
Fidelity Advisor New Inights Fund	195,000	0.5%
JP Morgan Small Cap Growth Fund	65,000	0.2%

Peer Analysis

Name	Ticker	Market Cap (mil)	Sales (mil)	EBITDA	Dividend Yield	EV/ EBITDA
Teladoc	TDOC	886	74	(50.50)	0.00	N/A
Castlight Health, Inc. Class B	CSLT	222	61	(79.40)	0.00	N/A
Evolent Health Inc Class A	EVH	830	101	(37.10)	0.00	N/A
Benefitfocus, Inc.	BNFT	1,005	160	(48.31)	0.00	N/A
HealthEquity Inc	HQY	1,711	107	28.71	0.00	42.44
athenahealth, Inc.	ATHN	5,258	835	103.22	0.00	59.21
Peer Averages		942	107	(34.03)	0.00	42.4

**Removed For Relative Valuation Analysis*

Enbridge Inc. (ENB)
September 18, 2015

Patrick Sanchez — International Energy

Enbridge Inc. (NYSE:ENB) engages in the transportation, generation, and distribution of energy in Canada and U.S. The company operates through five segments: Liquid Pipelines (6% of Revenues), Gas Distribution (9%), Gas Pipelines and Energy Processing (61%), Sponsored Investments (24%), and Corporate. The Liquid Pipeline segment consists of common carrier crude oil, natural gas liquid, and refined product pipelines and terminals in Canada and U.S. The Gas Distribution segment operates natural gas utility operations, which serves residential, commercial, and industrial customers. The Gas Pipeline and Energy Processing engages in investments in natural gas pipelines, processing, and green energy projects. The Sponsored Investments segment includes ownership interest Enbridge Energy Partners LP and Enbridge Income Fund. In addition, the company distributes electricity, and provides retail energy products. Enbridge was founded in 1949 and is headquartered in Calgary, Canada.

Price ($):	38.09
Price Target ($):	48.25
52WK H-L ($):	57.19 - 37.03
Market Cap (mil):	32,702
Float (mil):	859.1
Short Interest (%):	0.8
Avg. Daily Vol (mil):	1.1
Dividend ($):	1.41
Yield (%):	3.7

Beta:	0.83
WACC	6.87
M-Term Rev. Gr Rate Est:	8.8%
M-Term EPS Gr Rate Est:	20.8%
Debt/Equity:	215.7
Debt/EBITDA (ttm):	7.41
ROA (%):	0.64
ROE (%):	2.76
ROIC (%):	0.95

FY: Dec	12/31/2013	12/31/2014	12/31/2015	12/31/2016
Revenue (Mil)	32,653	33,859.23	26,921.83	29,278.07
% Growth	29.58	3.69	-20.49	8.75
Gross Margin	16.35	16.12	30.54	30.18
EBITDA Margin	10.66	11.33	16.62	17.57
EPS (Cal)	$0.53	$1.26	$1.68	$1.96
FCF/Share	($5.81)	($8.60)	$2.94	$3.37
P/E (Cal)	81.8	41.0	22.7	19.4
EV/EBITDA	19.7	21.4	13.9	12.5

Recommendation

Consensus estimates that the global population is expected to grow one-third by 2040, which will lead global demand for energy in all forms to rise subtantially. Further, as commodity prices plummeted over the past year, analysts, investors, and executives have come to the consensus that commodity prices will remain low, allowing upside potential as the industry consolidates. Enbridge is a North American leader in delivering energy and operates the world's longest crude oil and liquids transportation system. This has allowed for ENB to become one of the industry leaders in natural gas transmission with a niche focus in the Unites States (60% of revenues) and Western Canada (40%). ENB has been able to maintain a strong competitive advantage by maintaining operating profit margins above to the industry average (6.11% vs. -0.09%) despite the ongoing headwinds surrounding the industry. As a result of ongoing technology improvements, excellent competitive position, and management's focus on improving margins, Enbridge will be able to consistently grow its earnings and generate solid cash flows. ENB maintains a strong business model by incorporating a comprehensive hedging program in order to limit exposure to commodity prices, interest rate variability, and foreign exchange risk. Due to Enbridge's focus on balancing growth and returns, enhanced risk mitigation, and strong project delivery, it is recommended ENB be added to the AIM International Fund with a target price of $48.25, representing a 26.7% upside - they pay a dividend that yields 3.7%.

Investment Thesis

- **Hedge Against Macro Environment.** Enbridge's main focus is on pipelining and transportation, but its natural gas processing business (4.3% of Revenues) is subject to commodity price risk. The company hedges against ongoing low commodity prices by using physical and financial contracts to fix the prices of natural gas. The company has managed interest rate risk by implementing polices to limit floating rate debt as a percentage of total debt outstanding to not exceed 25% and has issued United States dollar denominated debt. Foreign exchange risk is managed by maintaning a level of foreign currency denominated earnings exposure over a five year forecast horizon.

- **Integration of New Technologies.** ENB has worked towards securing long-term growth by conducting a strong project schedule. Management believes there will be a shift in the energy supply mix towards renewables and natural gas; therefore, it is expanding its existing solid base of investments in renewable power generation and natural gas infrastructure. Since 2002, ENB has invested $4 billion in a wide range of energy projects across North America leading to 14 wind farms, 4 solar energy products, 1 geothermal project, and 5 heat waste recovery facilities. In 2014, ENB made significant changes towards pipeline integration and leak detection by partnering with C-FER Technologies. The partnership developed vapor-sensing tubes, fiber-optic temperature sensing systems, and hydrocarbon sensing cables – helping to reduce losses incurred through spillages.
- **Management's Focus on Returns to Shareholders.** Enbridge has consistently paid annual dividends with a strong and stable dividend history. Enbridge pays an annual dividend of $1.41 per share, yielding 3.7% annually. In addition, the company continuously engages in share buyback programs to offset the dilution of shares and it expects to grow its dividend by 14% to 16% on average from 2015 to 2018. After an optimistic capex schedule investing in pipeline integrity and cleaner energy, management assures that the company will have sufficient cash to pay dividends moving forward.

Valuation

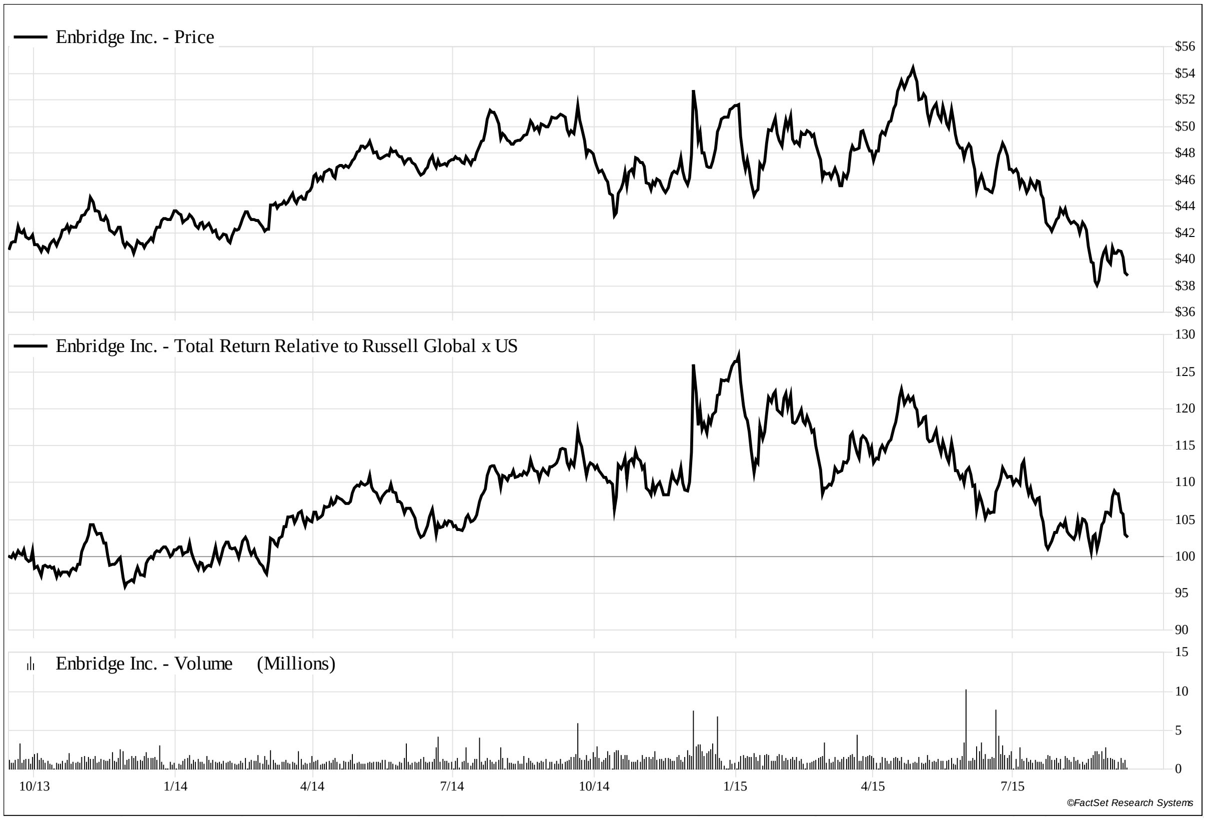
In order to reach an intrinsic value for Enbridge, a five year DCF model was constructed. Using a terminal growth rate of 2.50%, WACC of 7.30%, an intrinsic value of $48.79 was reached. A sensitivity analysis on the terminal growth rate and discount rate ranged from $35.59 to $51.86. Additionally, an EV/EBITDA multiple valuation was also calculated. Using a historical average of 17.53x and NTM EBITDA of $4334.4 MM, the multiple resulted in a valuation of $47.44. By weighting the DCF model 60% and the EV/EBITDA multiple 40% a price target of $48.25 was achieved. Enbridge pays a regular annual dividiend of $1.41, yielding 3.7%.

Risks

- **Interest Rate Risk.** ENB's earnings and cash flows are exposed to short-term interest rate variability due to regular repricing of debt. Pay fixed-receive floating interest rate swaps and options are used to hedge against interest rate movements. In addtion, they are exposed to long term interest rates ahead of anticipated fixed rate debt issuances.
- **Foreign Exchange Risk.** Enbridge's revenues, incurred expenses, and held investments and subsidiaries are denominated in currencies other than in Canadian dollars. As a result, the company's earnings, OCI, and cash flows are exposed to fluctuations in foreign exchange rates.
- **Commodity Price Risk.** Commodity prices are subject to the changing global supply and demand. Falling commodity prices could weaken borrowing capabilities, require additional collateral, or cause a write-down in inventory.

Management

Alberto Monaco has been President and CEO since 2012 and has been with ENB since 1995. In addition, Monaco also served on the board of Enbridge Energy Partners. Leon Anthony Zupan has held the COO position since 1987 and was promoted to Executive VP in 2004.



Ownership

% of Shares Held by All Insider Owners:	0.11%
% of Shares Held by Institutional & Mutual Fund Owners:	109.68%

Source: FactSet

Top 5 Shareholders

Holder	Shares	% Out
RBC Global Asset Management, Inc.	61,429,891 ▲	7.14
Capital Research & Management Co. (World Investors)	56,222,103 ▲	6.54
1832 Asset Management LP	41,404,319 ▲	4.81
TD Asset Management, Inc.	32,530,966 ▼	3.78
The Caisse de depot et placement du Quebec	30,582,100 ▲	3.56

Source: FactSet

Peer Analysis

Name	Ticker	Market Cap (mil)	Sales (mil)	EBITDA	Dividend Yield	EV/ EBITDA
Enbridge Inc.	ENB	33,547	29,568	4146.08548	2.71	21.39
Dynegy Inc.	DYN	3,153	2,634	346.0	--	17.58
TransCanada Corporation	*TRP	30,277	10,802	5400.0	3.36	14.51
Consolidated Edison, Inc.	ED	18,272	12,569	3443.0	3.82	10.25
National Fuel Gas Company	NFG	4,305	1,688	751.5	2.17	7.85
ONEOK Partners, L.P.	OKS	6,047	9,854	1339.0	7.60	11.74
Peer Averages		14,002	6,923	2485.1	3.12	12.5

**Removed For Relative Valuation Analysis*

MGP Ingredients (MGPI)

September 18, 2015

Mark Lakowske — Consumer Staples

MGP Ingredients, Inc. is a holding company which operates through its subsidiaries: MGPI Processing, Inc. and MGPI of Indiana LLC. It produces certain distillery and ingredients products derived from corn and other feedstock including rye, barley, barley malt and milo and ingredient products, which are derived from wheat flour, primarily to serve the packaged goods industry. MGPI is the largest U.S. producer of specialty wheat proteins and starches and a leading supplier of premium distilled spirits and high quality industrial alcohols. The company operates its business through following segments: Distillery Products, Ingredient Solutions and Other. Distillery products account for 81.9% of sales. Ingredients account for 18.1% of sales. The business roots back to 1941 when it was started by Cloud L. Cray, Sr. and was founded in 2011 and is headquartered in Atchison, KS.

Price ($): (9/16/15)	$ 16.00
Price Target ($):	19.81
52WK H-L ($):	19-10
Market Cap (mil):	278
Float (mil):	12.1
Short Interest (%):	5.42%
Avg. Daily Vol (mil):	0.10
Dividend ($):	0.06
Yield (%):	0.40%

Beta:	0.99
WACC	9.4%
M-Term Rev. Gr Rate Est:	5.0%
M-Term EPS Gr Rate Est:	4.0%
Debt/Equity:	9.9%
Debt/EBITDA (ttm):	0.13
ROA:	16.0%
ROE:	25.5%
ROIC:	21.2%

FY: Dec	2013	2014	2015E	2016E
Revenue (Mil)	323.30	313.40	320.00	330.00
% Growth	-3.30%	-3.06%	2.11%	3.13%
Gross Margin	6.60%	9.10%	12.00%	13.00%
Operating Margin	-1.06%	2.79%	4.60%	5.00%
EPS (Cal)	$1.98	$2.44	$2.71	$2.78
FCF/Share	$0.71	$0.56	$0.76	$0.89
P/E (Cal)	0.0	10.4	10.0	12.0
EV/EBITDA	13.1	13.5	14.0	14.5

Recommendation

MGP Ingredients' roots stretch as far back as 1847 with the Rossville Distillery in Lawrenceburg, Indiana. MGPI ran into a bit of an identity crisis in the late 2000's and earnings took a sizeable hit. From 2008 to 2011, revenue fell an astonishing $147 million. In 2014, management announced plans for their five-year strategic plan to commit to their core products and management. This five-year plan was set up to focus on the following: maximize the value of production, capture a large share of the value chain in both business segments, invest for growth, continue risk management, and build the MGP brand. Second quarter earnings show that the five-year plan has begun to pay off. Their financials improved greatly with revenue up 6% and gross margin up 10.2% and they are confident that the next profitable frontier is in whiskey production. In 2011, the company acquired a distillery to produce the company's premium whiskeys and bourbon products. Of the top 10 shareholders, 5 of them have increased their position in the company. This will be great momentum for the company as it just recently was added to the Russell 2000 back in June. One of the most appealing reasons to invest in MGPI is their P/E relative to the market and their peers. MGPI's price to earnings ratio is half, even one third, the size of its competitors. This bodes well for investors due to the relatively high P/E ratios seen in the U.S. and global markets. Overall, MGPI has shown fantastic growth momentum in the past year, and with new management and business model, they will be able to see profitable futures. It is recommended that MGPI be added to the AIM Equity Fund with a price target of $19.81, offering a 24% upside and paying a dividend yielding 0.4%.

Investment Thesis

- **Lowest corn and wheat prices in years.** Seeing that MGPI is essentially a distillery, almost all of their products are derived from grains such as corn and wheat. Historically, when the price of grain has fallen, revenues for MGPI have risen. For example, in 2014, when corn prices fell, profit margins rose 38%. The recent decline in corn prices can be attributed to an oversupply in the global market and lower demand—simple economics. U.S. corn reserves are at their highest level in 28 years—increasing 11% from this time last year. It should also be noted that forward sales of corn fell to 4.3 million tons this year—declining 38% from 2014.

- **Higher demand for whiskey across the globe and US.** MGPI has been taking advantage of the exploding whiskey market in the US and around the globe by focusing more of its attention on specialty whiskey products. MGPI just announced their own limited edition Metze's Select Whiskey. American whiskey exports topped $1 Billion in 2013 for the first time in history. In 2002 that number was only $400 Million. In the United States between the years 2010 and 2014, American bourbon and whiskey sales rose 7.4% and 2.7%, respectively. Internationally, American bourbon and Tennessee Whiskey sales climbed nearly 17%.
- **Outstanding Q2 2015 earnings report.** MGPI has been following closely to their five-year plan set up to streamline their business operations and focus on their strengths. This has fared well for MGPI as their Q2 earnings report came out much stronger than expected. A few notable points are a 6% increase in sales, 10.2% increase in gross margin, net income rose 54%, and EPS increased by $0.16 to $0.44. MGPI will report Q3 earnings in November.

Valuation

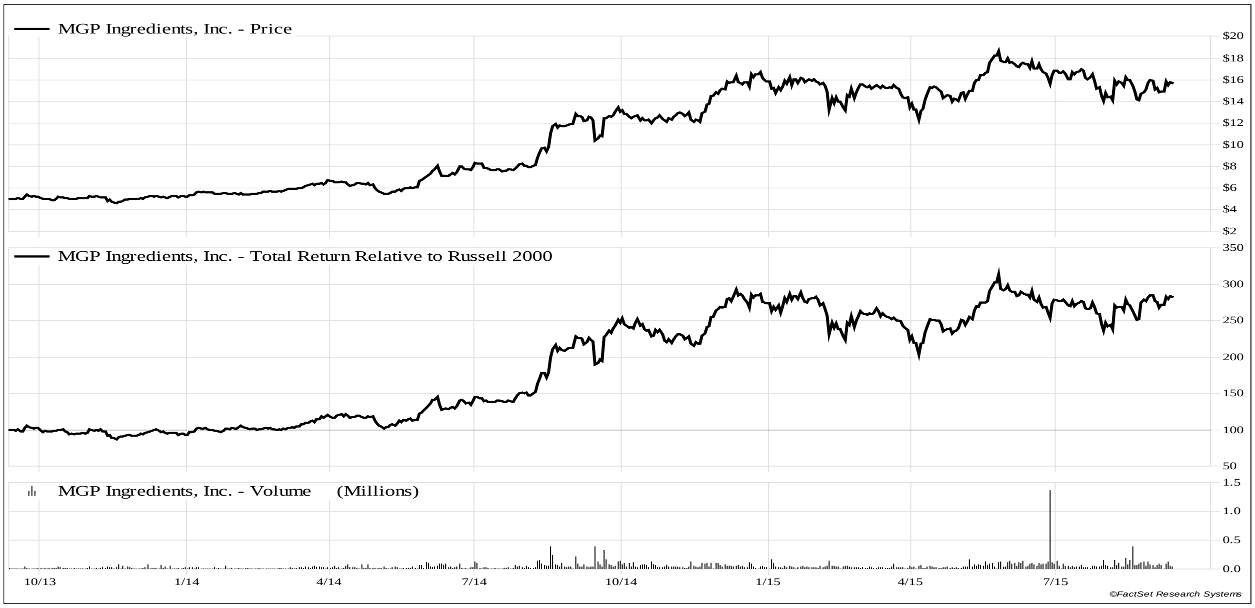
In order to reach an intrinsic value for MGPI, a five year DCF model was constructed. Using a terminal growth rate of 2.5%, WACC of 9.40%, an intrinsic value of $21.26 was reached Additionally, a P/E multiple valuation was conducted using NTM EPS of $0.95, a comparables average P/E of 26.68x, and MGPI's 5-year historical average P/E which resulted in a valuation of $17.58. By weighting the two valuation models 60/40, a price target of $19.81 was reached, which offers a 23.79% upside along with a dividend yielding 0.4%.

Risks

- **Reliance on few suppliers.** MGPI has two main suppliers for all of their grains. Bunge Milling is their supplier for corn and Ardent Mills is their supplier for wheat flour. This leaves MGPI exposed to tremendous operational risk. For example, if another company acquires Ardent Mills, the new parent company might require Ardent Mills to cut ties with MGPI, leaving MGPI at high risk of supply shortages.
- **Reliance on grain prices.** Although the price of grains is at historic lows, prices could start steadily increasing if there is a dry season coming up in South America. Reliance on grain prices can be dangerous for a company because there are so many factors that drive price change that the company has no control over such as government intervention, climate change, and disease.
- **New whiskey demand growth a fad?** As mentioned before, the demand for whiskey has been on the rise in the last few years and demand for other spirits, such as vodka, has fallen 2% internationally. This raises the question of whether or not the rise in whiskey demand is a sustainable change in taste or is it just a short-term fad? Liquor behemoths such as Diageo and Brown-Forman think it is a long-term trend and have been building more distilleries to keep up with demand for the future.

Management

Gus Griffin has been chief executive since July 2014 and a member of the board since August 2014—total compensation of $408,202. Randall M. Schrick has been the Vice President of Production and Engineering since 2014—total compensation of $781,398. David Dykstra has been with the company as Vice President of Alcohol Sales and Marketing since 2009—total compensation of $389,469. It should also be noted that effective September 14th, 2015; Tim Pigott will be bringing 25 years of experience in the foods industry as the new CFO of MGPI.



Source: FactSet

Ownership

% of Shares Held by All Insider and 5% Owners:	30.38%
% of Shares Held by Institutional & Mutual Fund Owners:	37.48%

Source: Bloomberg

Top 5 Shareholders

Holder	Shares	% Out
Karen Seaberg	3,742,262	21.17
Blackrock Financial Group	1,012,405	5.73
Dimensional Fund Advisors, L.P.	977,341	5.53
Cloud L.Cray, Jr.	756,406	4.28
Heartland Advisors	600,000	3.39

Source: Bloomberg

Peer Analysis

Name	Ticker	Market Cap (mil)	Sales (mil)	D/E	P/E	EV/ EBITDA
MGP Ingredients, Inc	MGPI	278	313	9.9	10.40	13.53
Brown-Forman Corp.	BF/B	19,850	3,134	62.4	29.30	19.02
Constellation Brands	STZ	24,750	39,564	127.3	30.24	16.82
Molson Coors Brewing	TAP	12,830	9,316	40.5	19.28	20.3
Peer Averages		19,143	17,338	76.7	26.273	17.4

**Removed For Relative Valuation Analysis*

Source: Bloomberg